



KPMG's Individual Income Tax and Social Security Rate Survey 2009

TAX

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KPMG's Individual Income Tax and Social Security Rate Survey: Commentary

There are many surveys that provide a snapshot of taxes on personal incomes around the world for the current year. But very few look at how taxes have changed over a period of time, with the aim of drawing conclusions on how people are taxed in different parts of the world, and how different governments approach the difficult task of raising funds for necessary public services without losing the support of their citizens.

Commentary

Welcome to the 2009 edition of KPMG's Individual Income Tax and Social Security Rate Survey.* This is the second year that our International Executive Services (IES) practice has produced this resource, reporting on global movements in personal taxes. Drawing on our global network of professionals from KPMG international member firms around the world, IES has compiled personal income tax and social security rates from 86 countries for each of the past seven years.

For ease of comparison, we have again concentrated on the highest rates of personal income tax payable to central governments in each country. This year, however, as the new survey title suggests, we have extended our review to include a greater look at social security—often a forgotten item when considering taxes.

With respect to personal income tax rates, the picture that emerges is similar and consistent with that reported in 2008. We have seen a slow global decline in top personal income tax rates with the average rate dropping another 0.3 percent this year. While rates have remained static in most locations, several countries in Europe and Asia-Pacific have seen significant movement.

The highest personal income taxes in the world are still paid by citizens of the European Union (EU). But the downward trend persists, fuelled in most recent years by the Eastern European countries, with average rates falling from 41.1 percent in 2003 to 36 percent in 2009.

The introduction of flat rate taxes continues to be a key contributing factor and the momentum, first created by Estonia back in 1994, has yet to falter. Bulgaria, with a 10 percent flat rate introduced last year, still has the lowest personal tax rate within the EU but others are on the move. Lithuania has seen the biggest rate change dropping a remarkable 18 percent over the past three years including a 9 point drop to 15 percent in 2009. Latvia, a long-standing stable member of the flat rate tax community, has also seen rates fall from 25 percent in 2008 to 23 percent in 2009. Poland as well takes a step closer to the flat rate tax methodology by implementing a two bracket approach in 2009 with the top rate falling from 40 percent to 32 percent this year.

In Western Europe, aside from Finland where the steady year-to-year drop in the national rate continues, we did not see any further cuts in 2009. Ireland actually reversed the trend by introducing an income levy that progressively hits high income earners. The impact of the levy increases the Irish top rate from 41 percent in 2008 to 46 percent in 2009—the highest rate increase seen globally this year.

After the Europeans, the next highest taxes are paid by the people of the Asia-Pacific region but the margin is spreading. Average rates in Asia-Pacific have declined from 36.1 percent in 2003 to 33.9 percent in 2009 with a 0.7 percent drop in 2009.

This decrease is driven by some of the smaller countries in the region as larger countries such as China, India, and

Japan have not seen any rate changes over the past seven years. Vietnam and Indonesia led the 2009 moves with each dropping their top rate by 5 percent to 35 percent and 30 percent, respectively. The Malaysian top rate fell from 28 percent, where it has been for the past six years, to 27 percent. New Zealand likewise fell by 1 percent in 2009 to a 38 percent rate. Rate competition in the region continues to be led by Hong Kong and Singapore. With Hong Kong dropping its top rate to 15 percent last fiscal year, it confirms its place as the lowest tax rate location in the region.

Turning to Latin America, personal income taxes in this region remain relatively low and stable. In fact, there were no changes in tax rates from 2008 to 2009. The introduction of income tax in Paraguay and Uruguay in 2007 increased the average tax rate to 26 percent for the region, but this masks historic downward trends elsewhere. Mexico, Colombia, and Panama in particular have all seen rate drops over the past seven years.

In terms of the highest income tax rates in the world, these are still charged to the people of Denmark. With the formerly separate social security piece rolled into income tax, the Danes have a top rate of 62.3 percent in 2009. For the Asia-Pacific region, the top rate at 50 percent belongs to Japan. For the Latin America region, the top rate at 40 percent goes to Chile.

A country's highest personal income tax rate is only one indicator of what individuals will pay on their income. Just as influential are which other

* The information contained in this survey was gathered from KPMG member firm professionals from March to May 2009.

taxes may apply and on which income thresholds are those tax rates charged. Our analysis comparing both effective income tax and social security rates on 100,000 USD and 300,000 USD of gross income emphasizes this point. While Denmark is clearly at the higher end of each scenario, it does not actually have the top rate. On the 100,000 USD basis for example, Slovenia, Croatia and Hungary all have higher combined effective rates ranging from 48.1 to 54.9 percent. The primary difference here is social security, which begs the question, is social security another tax?

This is difficult to answer as it depends on who you are and what you mean by social security. Social security components can vary significantly by country, employer, and employee type. For ease of comparison across countries, we have restricted our review to recognized core contribution requirements for employees earning gross income of 100,000 USD and 300,000 USD. We have included both the employee and employer contributions for completeness. The results show France has the highest combined rate at approximately 60 percent under either scenario, followed by Belgium at 47 percent, and then Hungary and Italy both in the lower 40 percent range. While these rates may seem exceptionally high, about one-third of the countries within this review had effective rates of 20 percent or more. Although European countries dominate the list, included are Latin American countries like Costa Rica at over 30 percent and Argentina at over 25 percent. Whether social

security is a true tax may be debated, but in terms of cost, it can be material and should not be forgotten.

We extended the social security review to address whether highly compensated individuals can expect a return on their contributions. Our analysis simply compared current benefit payouts versus current annual contributions. Looking at the situation today and considering that several decades of contributions are generally required to achieve full payout, our study suggests minimal return on investment can be expected. In the Netherlands, for example, the annual 2009 employee and employer contributions almost double the expected current year payout, never mind the 40 years of required contributions to achieve this payout.

While through this survey we wish to raise the profile on social security, in reality, its complexities go well beyond any straightforward return on investment review. For those high income earners who stay healthy and work until full retirement, social security could be viewed as just another tax. But for the rest of the population, many of whom will rely on the support of their country's social security system at some point, the coverage offers much-needed assistance. Given ageing populations and today's poor economic climate, these support schemes are more important now than ever before. With current and future increased demands on the social security infrastructures of the countries surveyed here, we expect further stress on many already fragile systems.

In these turbulent times, considering the numerous government bailouts and increasing public deficits, we also anticipate upward pressure on personal income tax rates. While the trend has been a general decline in rates over the past seven years, there are some preliminary indicators that a reversal may be on the way. In 2009, as mentioned above, Ireland introduced the income levy where higher rates are charged at income levels over 250,120 EUR. In 2010, the UK budget is slated to raise the top personal income tax rate to 50 percent on income levels over 150,000 GBP. In the United States, where the top federal rate has historically kicked in at relatively high levels of income, there is also speculation of increasing the top rates.

While perhaps popular in certain opinion polls, this would be a reversal of previous trends and may present new pitfalls. Should high income earners spend less on goods and services due to reduced income, this would have a negative impact on the collection of indirect taxes on the corporate side. High income earners also have more choice in mobility where both the past and present confirm countries are still eager to attract such individuals via a competitive personal tax rate market.

Rosheen Garnon
Global Chair
International Executive Services
KPMG in Australia

Highest Rates of Personal Income Tax

OECD	European Union	Asia-Pacific	Latin American	Country	2003	2004	2005	2006	2007	2008	2009
			■	Argentina	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%
				Armenia	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%
■		■		Australia	47.0%	47.0%	47.0%	47.0%	45.0%	45.0%	45.0%
■	■			Austria	50.0%	50.0%	50.0%	50.0%	50.0%	50.0%	50.0%
				Bahamas	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
				Bahrain	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
■	■			Belgium	50.0%	50.0%	50.0%	50.0%	50.0%	50.0%	50.0%
				Bermuda	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
			■	Brazil	27.5%	27.5%	27.5%	27.5%	27.5%	27.5%	27.5%
	■			Bulgaria	29.0%	29.0%	24.0%	24.0%	24.0%	10.0%	10.0%
■				Canada	29.0%	29.0%	29.0%	29.0%	29.0%	29.0%	29.0%
			■	Cayman Islands	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
			■	Chile	40.0%	40.0%	40.0%	40.0%	40.0%	40.0%	40.0%
		■		China	45.0%	45.0%	45.0%	45.0%	45.0%	45.0%	45.0%
			■	Colombia	35.0%	35.0%	38.5%	38.5%	34.0%	33.0%	33.0%
			■	Costa Rica	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%
				Croatia	45.0%	45.0%	45.0%	45.0%	45.0%	45.0%	45.0%
	■			Cyprus	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%
■	■			Czech Republic	32.0%	32.0%	32.0%	32.0%	32.0%	15.0%	15.0%
■	■			Denmark	59.0%	59.0%	59.0%	59.0%	59.0%	62.3%	62.3%
			■	Ecuador	25.0%	25.0%	25.0%	25.0%	25.0%	35.0%	35.0%
				Egypt	34.0%	34.0%	34.0%	20.0%	20.0%	20.0%	20.0%
	■			Estonia	26.0%	26.0%	24.0%	23.0%	22.0%	21.0%	21.0%
■	■			Finland	35.0%	34.0%	33.5%	32.5%	32.0%	31.5%	30.5%
■	■			France	48.1%	48.1%	48.1%	40.0%	40.0%	40.0%	40.0%
■	■			Germany	48.5%	45.0%	42.0%	42.0%	45.0%	45.0%	45.0%
				Gibraltar	45.0%	45.0%	45.0%	42.0%	40.0%	40.0%	40.0%
■	■			Greece	40.0%	40.0%	40.0%	40.0%	40.0%	40.0%	40.0%
				Guatemala	31.0%	31.0%	31.0%	31.0%	31.0%	31.0%	31.0%
				Guernsey	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%
		■		Hong Kong	15.5%	16.0%	16.0%	16.0%	16.0%	15.0%	15.0%
■	■			Hungary	40.0%	38.0%	38.0%	36.0%	36.0%	36.0%	36.0%
■				Iceland	25.8%	25.8%	24.8%	36.7%	35.7%	35.7%	37.2%
		■		India	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%
		■		Indonesia	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	30.0%
■	■			Ireland	42.0%	42.0%	42.0%	42.0%	41.0%	41.0%	46.0%
				Isle Of Man	18.0%	18.0%	18.0%	18.0%	18.0%	18.0%	18.0%
				Israel	50.0%	49.0%	49.0%	49.0%	48.0%	47.0%	46.0%
■	■			Italy	45.0%	45.0%	43.0%	43.0%	43.0%	43.0%	43.0%
			■	Jamaica	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%
■		■		Japan	50.0%	50.0%	50.0%	50.0%	50.0%	50.0%	50.0%
				Jersey	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%
				Kazakhstan	30.0%	20.0%	20.0%	20.0%	10.0%	10.0%	10.0%
■		■		Korea (South)	36.0%	36.0%	35.0%	35.0%	35.0%	35.0%	35.0%
				Kuwait	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

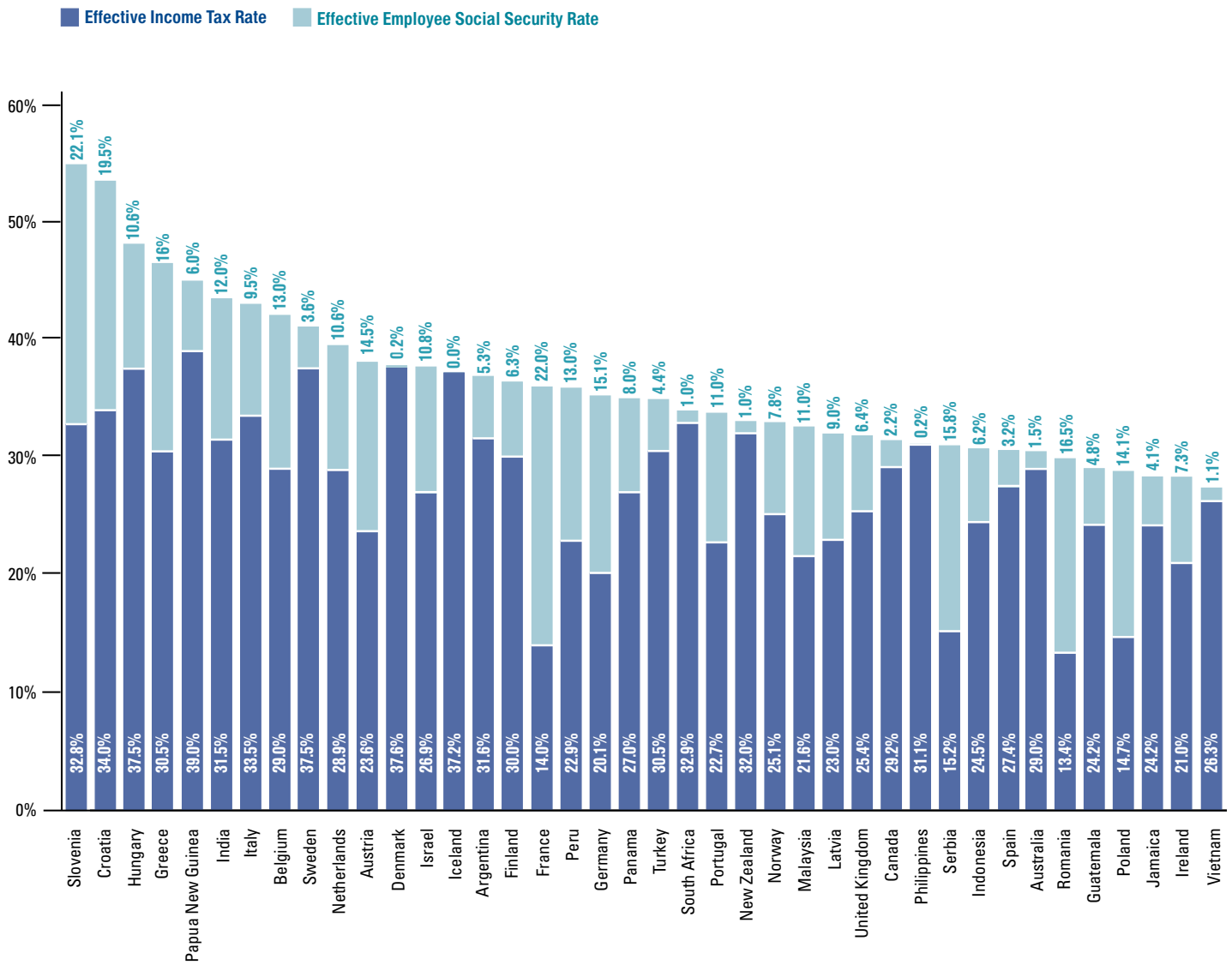
OECD	European Union	Asia-Pacific	Latin American	Country	2003	2004	2005	2006	2007	2008	2009
	■			Latvia	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	23.0%
	■			Lithuania	33.0%	33.0%	33.0%	33.0%	27.0%	24.0%	15.0%
■	■			Luxembourg	39.0%	39.0%	39.0%	39.0%	39.0%	39.0%	39.0%
		■		Malaysia	28.0%	28.0%	28.0%	28.0%	28.0%	28.0%	27.0%
	■			Malta	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%
■			■	Mexico	34.0%	33.0%	30.0%	29.0%	28.0%	28.0%	28.0%
■	■			Netherlands	52.0%	52.0%	52.0%	52.0%	52.0%	52.0%	52.0%
■		■		New Zealand	39.0%	39.0%	39.0%	39.0%	39.0%	39.0%	38.0%
■				Norway	47.5%	47.5%	47.5%	40.0%	40.0%	40.0%	40.0%
				Oman	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
		■		Pakistan	30.0%	30.0%	30.0%	30.0%	20.0%	20.0%	20.0%
			■	Panama	33.0%	33.0%	27.0%	27.0%	27.0%	27.0%	27.0%
		■		Papua New Guinea	47.0%	47.0%	47.0%	45.0%	42.0%	42.0%	42.0%
			■	Paraguay	0.0%	0.0%	0.0%	0.0%	10.0%	10.0%	10.0%
			■	Peru	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%
		■		Philippines	32.0%	32.0%	32.0%	32.0%	32.0%	32.0%	32.0%
■	■			Poland	40.0%	40.0%	50.0%	40.0%	40.0%	40.0%	32.0%
■	■			Portugal	40.0%	40.0%	40.0%	42.0%	42.0%	42.0%	42.0%
				Qatar	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
	■			Romania	40.0%	40.0%	16.0%	16.0%	16.0%	16.0%	16.0%
				Russia	13.0%	13.0%	13.0%	13.0%	13.0%	13.0%	13.0%
				Saudi Arabia	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
				Serbia	10.0%	10.0%	10.0%	10.0%	15.0%	15.0%	15.0%
		■		Singapore	22.0%	22.0%	21.0%	20.0%	20.0%	20.0%	20.0%
■	■			Slovakia	38.0%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%
	■			Slovenia	50.0%	50.0%	50.0%	50.0%	41.0%	41.0%	41.0%
				South Africa	40.0%	40.0%	40.0%	40.0%	40.0%	40.0%	40.0%
■	■			Spain	45.0%	45.0%	45.0%	45.0%	43.0%	43.0%	43.0%
		■		Sri Lanka	30.0%	30.0%	30.0%	30.0%	35.0%	35.0%	35.0%
■	■			Sweden	57.0%	56.7%	56.8%	56.8%	56.8%	56.7%	56.7%
■				Switzerland	40.4%	40.4%	40.4%	40.4%	40.4%	40.0%	40.0%
		■		Taiwan	40.0%	40.0%	40.0%	40.0%	40.0%	40.0%	40.0%
		■		Thailand	37.0%	37.0%	37.0%	37.0%	37.0%	37.0%	37.0%
■				Turkey	45.0%	40.0%	35.0%	35.0%	35.0%	35.0%	35.0%
				Ukraine	40.0%	13.0%	13.0%	13.0%	15.0%	15.0%	15.0%
				United Arab Emirates	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
■	■			United Kingdom	40.0%	40.0%	40.0%	40.0%	40.0%	40.0%	40.0%
■				United States	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%
			■	Uruguay	0.0%	0.0%	0.0%	0.0%	25.0%	25.0%	25.0%
			■	Venezuela	25.0%	34.0%	34.0%	34.0%	34.0%	34.0%	34.0%
		■		Vietnam	50.0%	40.0%	40.0%	40.0%	40.0%	40.0%	35.0%
				Average	31.2%	30.4%	29.9%	29.5%	29.5%	29.2%	28.9%

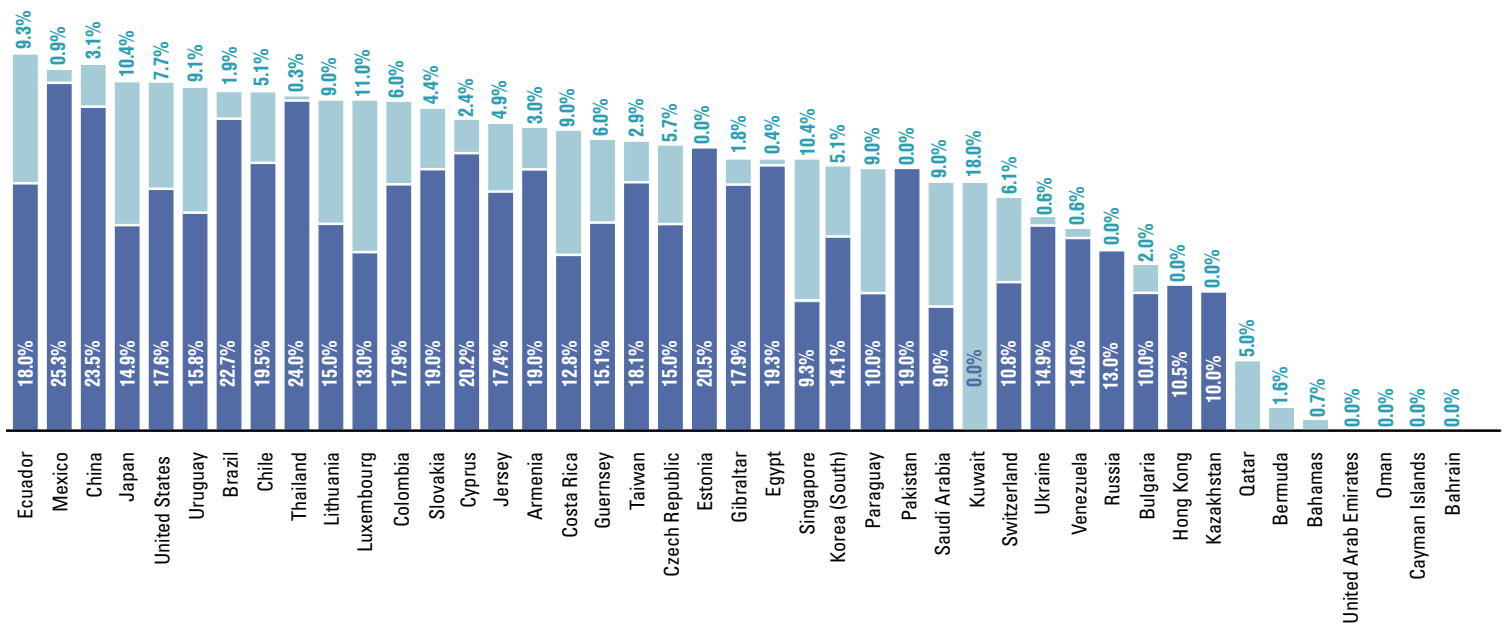
Notes:

- 0.0% = No taxes are levied.
- For countries that tax sections of income at different levels, only the top level is presented.
- All tax rates are for residents.
- With the exception of Switzerland where the figure quoted includes the Zurich cantonal and communal rate. For Canada, Finland, the United States, and other countries with similar structures, the tax rates for provinces, states, etc., are not included.
- No other taxes have been included (such as social security tax, employment tax, etc.). The exception includes Denmark and Sweden where a social security component is included.

Source: Tax rate and social security information for each country provided by the KPMG international member firm in each respective country

Effective Income Tax and Social Security Rates on 100,000 USD of Gross Income





Notes**

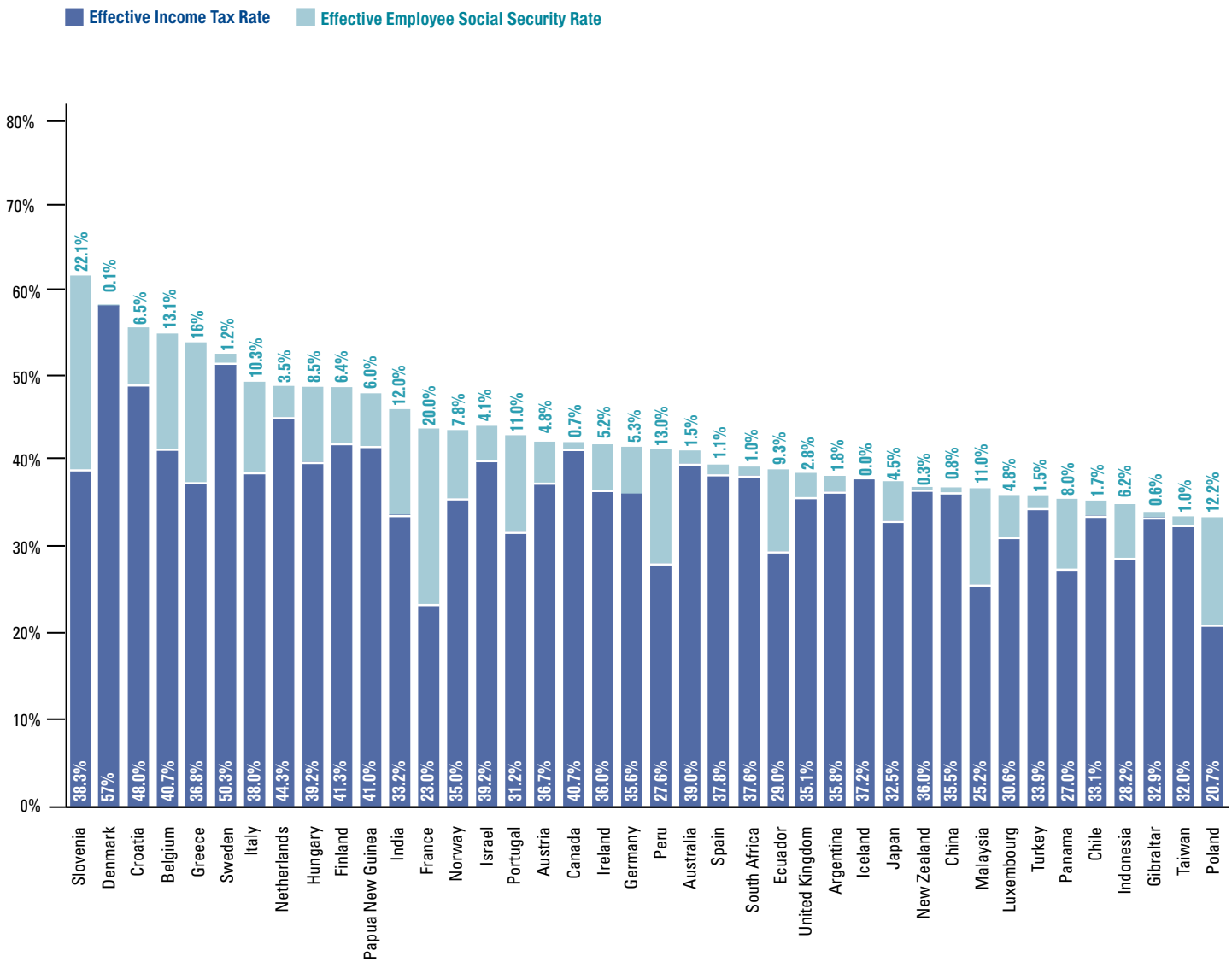
Effective rates were derived by taking total income tax and/or social security over gross income prior to any deductions (which may include social security). This allows for better comparison as deductions can vary greatly across countries.

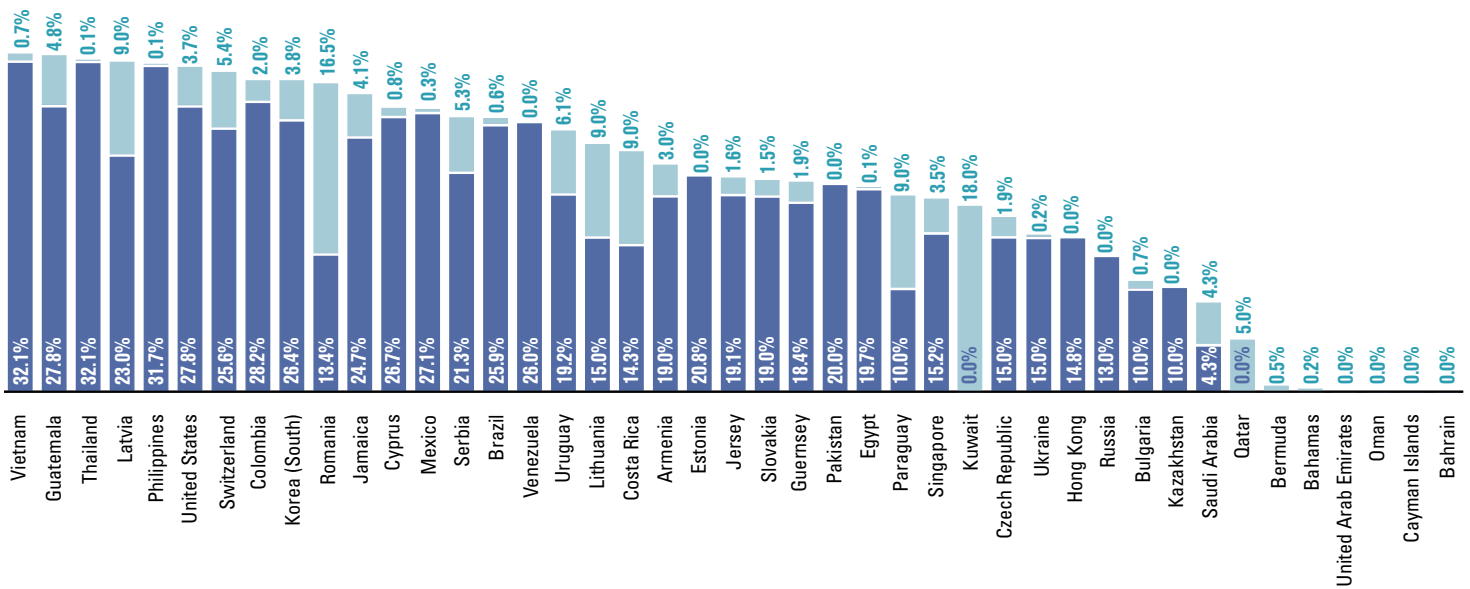
In addition to federal taxes, the U.S. calculation factors in the state of New York; the Canadian calculation factors in the province of Ontario; the Finnish calculation factors in Helsinki; and the Swiss calculation factors in Zurich canton and community.

Tax calculations assume married, no children.

Source: Tax rate and social security information for each country provided by the KPMG international member firm in each respective country

Effective Income Tax and Social Security Rates on 300,000 USD of Gross Income





Notes**

Effective rates were derived by taking total income tax and/or social security over gross income prior to any deductions (which may include social security). This allows for better comparison as deductions can vary greatly across countries.

In addition to federal taxes, the U.S. calculation factors in the state of New York; the Canadian calculation factors in the province of Ontario; the Finnish calculation factors in Helsinki; and the Swiss calculation factors in Zurich canton and community.

Tax calculations assume married, no children.

Source: Tax rate and social security information for each country provided by the KPMG international member firm in each respective country